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FEDERAL COMMUNICATIONS COMMISSION
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| In the Matter of | ) | |
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| 2000 Biennial Regulatory Review | ) | CC Docket No. 00-199 |
| Comprehensive Review of the Accounting | ) | |
| Requirements and ARMIS Reporting | ) | |
| Requirements for Incumbent Local Exchange | ) | |
| Carriers: Phase 2 and Phase 3 | ) | |

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## WORLDCOM COMMENTS ON PHASE II PROPOSALS

WorldCom Inc. (WorldCom) hereby submits its comments on the Notice of Proposed Rulemaking (Notice) in the above-captioned proceeding.

In many cases, the Commission's proposals to modify the chart of accounts and ARMIS reporting requirements strike a reasonable balance. They would streamline the accounting rules significantly, but would generally retain sufficient safeguards and reporting requirements to ensure that the Commission and the states can carry out their regulatory responsibilities. Furthermore, the Notice appears to recognize that, in reviewing its accounting rules, the Commission should take into account changes in technology and changes in regulatory approaches, including the local competition and universal service provisions of the Telecommunications Act of 1996. In certain cases, however, the Commission's proposals would eliminate information that is vital to the regulation of interstate and intrastate rates and to the estimation of the forward-looking cost of ILEC services and network elements.

# I. Accounting Rule Changes

## A. Chart of Accounts

In the Notice, the Commission proposes to eliminate approximately one-quarter of the current Class A accounts. Generally, the elimination of these accounts should not greatly impair the Commission's exercise of its regulatory responsibilities. For example, many of the long distance revenue accounts that the Commission proposes to eliminate reflect product categories that are no longer significant.

In two respects, however, the Commission's proposal would eliminate important detail. First, rather than consolidate all of the Class A-level local revenue accounts into a single account, as is proposed in the Notice, the Commission should, at a minimum, maintain three accounts: one for basic local exchange revenue, one for local private line revenue, and one for other local exchange revenue. Because local private line services are generally more competitive than basic local exchange services, and thus are often subject to a different regulatory regime, the Commission should ensure that state regulators continue to be able to distinguish private line revenues from basic local exchange revenues.

Second, the Commission should not eliminate the Class A-level detail for expense accounts 6611 through 6728. The Commission and other parties have employed Class A account-level analysis of the expenses recorded in these accounts when estimating universal service costs or estimating the forward-looking cost of unbundled network elements. In addition, because many of these accounts record expenses of the type that are avoided when services are provided at wholesale, Class A-level analysis of these accounts plays an important role in determining the section 252(d)(3) resale discount.[1]

In addition to eliminating certain accounts that are no longer necessary, the Commission should update the chart of accounts to reflect changes in network technology and in the regulatory environment. At a minimum, the Commission should adopt the state regulators' proposal for the creation of new revenue and expense accounts for (1) reciprocal compensation; (2) federal universal service support; (3) state universal service support; (3) resale; (4) wholesale (by which WorldCom assumes that the state regulators are referring to unbundled network elements (UNEs)); and (5) collocation. Separate accounts for UNEs, interconnection, and other local competition-related expenses and revenues would provide the Commission with an essential tool for implementing sections 251, 252, and 254 of the 1996 Act. Indeed, the Commission has already tentatively concluded that new accounts of this type would provide the Commission with useful information without imposing undue burdens on carriers.[2]

WorldCom also supports the other updates to the chart of accounts that have been proposed by state regulators. In particular, a requirement that the ILECs maintain and report separate subaccounts for loop and transport investment and expenses would allow the

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[1] See Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, CC Docket No. 96-98, released August 8, 1996, at ¶¶ 890-934 (Local Competition Order).

[2] Amendments to Uniform System of Accounts for Interconnection, Notice of Proposed Rulemaking, 12 FCC Rcd 16577, ¶ 6.

refinement of cost models that estimate the forward-looking cost of unbundled transport and loops.

## B. Other Accounting Proposals

In the Notice, the Commission seeks comment on a large number of accounting rule changes that have been advocated by USTA. Given that USTA will no doubt use its initial comments to expand on these proposals and to advance even more far-reaching changes, WorldCom limits its comments at this time to two specific USTA proposals -- the elimination of Section 32.16 and the elimination of the detailed property record requirements.

The Commission should not eliminate the Section 32.16 requirement for notification and approval to implement new accounting standards prescribed by the Financial Accounting Standards Board (FASB). The prior review period serves two important functions: first, it permits the Commission to ensure uniformity in ILEC accounting practices;[3] and second, it allows the Commission to assess the implications of GAAP changes for ILEC revenue requirements. Assessment of the revenue requirement implications remains essential to protecting ratepayers, including those that are served by the price cap ILECs. The price cap ILECs continue to have the authority to seek low-end adjustments or to make above-cap filings. Moreover, the monitoring of reported earnings is essential to the Commission's ability to ensure that its regulatory regime is maintaining a "reasonable balancing" of the "investor

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[3]For example, after evaluating the two options that SFAS-106 permitted for recognizing the transition from a cash basis to accrual basis for accounting for Other Post-Employment Benefits (OPEBs), the Commission instructed the ILECs to amortize the transition obligation over 20 years, rather than use the flash-cut approach. See Southwestern Bell and GTE Service Corporation Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions, Order, 6 FCC Rcd 7560 (1991).

interest in maintaining financial integrity and access to capital markets and the consumer interest in being charged non-exploitative rates."[4]

Similarly, the Commission should not eliminate its detailed property record requirements. Only last month, the Commission acknowledged the continued importance of accurate property records, emphasizing that it "remain[ed] concerned about the poor record keeping that [the Bureau's continuing property record] audits revealed."[5] Given that the Commission has specifically ordered the Bureau to work with the RBOCs to evaluate and improve the accuracy of their property records and accounts,[6] there is no basis for the Commission to now change course and eliminate its property record requirements.

## II. ARMIS Reporting

### A. Financial Reports

In the Notice, the Commission proposes to eliminate the ARMIS 43-01 report and streamline the ARMIS 43-02, 43-03, and 43-04 reports. In general, the Commission's proposals would reduce significantly the reporting requirements placed on the ILECs. However, WorldCom does not support the elimination of the ARMIS 43-02, Table I-1. The

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[4] Jersey Cent. Power & Light v. FERC, 810 F.2d 1168, 1177-78 (D.C. Cir. 1987).

[5] 1998 Biennial Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers; Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, et al., Second Report and Order in CC Docket No. 99-137 and Order in CC Docket No. 99-117, released November 7, 2000, at ¶ 13.

[6] Id.

ARMIS 43-02 should be maintained as a primary source of all operating company-level accounting information.

In addition to streamlining these reports, the Commission should update the ILECs' financial reporting in two respects. First, the Commission should adopt its proposal to require that the ILECs report, on the ARMIS 43-02 and 43-04 reports, metallic and non-metallic cable investment and expense information. As the Commission discusses in the Notice, data distinguishing metallic and non-metallic investment and expenses can be used to derive key inputs for cost models that are used to estimate universal service support. Because the ILECs already maintain subaccounts for this data, the reporting of this data would not place a significant burden on the ILECs.

Second, the Commission should update the ARMIS financial reports to reflect the adoption of the 1999 Pricing Flexibility Order.[7] In the Pricing Flexibility Order, the Commission created a framework under which the ILECs can obtain either "Phase I" pricing flexibility, which permits the ILECs to offer interstate access services under contract and outside of price caps, or "Phase II" pricing flexibility, which permits the ILECs to remove all of their transport and special access services from price cap regulation. The implementation of the Pricing Flexibility Order will mark a significant change in the Commission's regulation of the price cap ILECs, because it is likely that a significant portion of these ILECs' access

[7]Access Charge Reform, Fifth Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 96-262, released August 27, 1999 (Pricing Flexibility Order).

service demand -- particularly for special access and transport services -- will no longer be subject to price cap regulation.[8]

In order to maintain a minimum level of oversight over access services that have been removed from price cap regulation, and to monitor the implementation of the Pricing Flexibility Order, the Commission should require the ILECs to report the following data:

1. Revenues from interstate access services that are offered pursuant to the contract tariff provisions of Section 61.55 of the Commission's rules (and are therefore excluded from price cap regulation pursuant to Section 69.727(a)(2) of the Commission's rules).
2. Revenues associated with interstate access services that are excluded from price cap regulation pursuant to Section 69.727(b) of the Commission's rules.

## B. Infrastructure Reports

The Commission proposes a series of changes to the 43-07 and 43-08 reports. In a few cases, the Commission has properly identified areas in which the information that is being collected is no longer of significance. For example, the Commission's proposal to eliminate certain data concerning electromechanical switches, SS7 and ISDN deployment, and call set-up time should not greatly impair the Commission's exercise of its regulatory responsibilities. The Commission has also correctly identified several areas where the reports

[8]One ILEC, BellSouth, has already obtained pricing flexibility in 38 cities. See BellSouth Petition for Pricing Flexibility for Special Access and Dedicated Transport Services, Memorandum Opinion and Order, CCB/CPD No. 00-20, released December 15, 2000. Verizon and SBC petitions that seek similarly broad relief are pending.

should be updated, such as requiring the reporting of digital loop carrier deployment and other changes in local loop plant.[9]

In many respects, however, the Commission's proposals would eliminate data concerning the ILECs' network plant that is used by the Commission, state regulators, and the public to track network modernization and for other regulatory purposes. For example, the Commission should not eliminate the ARMIS 43-08's reporting of outside plant by structure type. As the Commission notes, there has been much discussion of structure issues in the context of the universal service cost model proceeding and in state proceedings to estimate the forward-looking cost of unbundled network elements. Even when the ARMIS 43-08 data is not used directly in the models, it is used to benchmark the models and to derive relationships between structure type and costs.

Similarly, the Commission should not adopt its proposal to eliminate the separate reporting in the ARMIS 43-08 Table II of PBX and Centrex extensions and in the ARMIS 43-08 Table III of single-line business lines and multi-line business lines. This data is required in order to estimate forward-looking costs in the Commission's synthesis model and in other forward-looking cost models. For example, the synthesis model uses data concerning the single-line business, multiline business, payphone, residential and "special" lines (special access and private line) in determining wire center costs.[10] In determining the line counts that

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[9]Notice at ¶ 74.

[10]ederal-State Joint Board on Universal Service, Tenth Report and Order, CC Docket No. 96-45, released November 2, 1999, at ¶ 100 (Inputs Order).

are used in the model, the Commission used a methodology that "trued up" estimates to ARMIS line counts.[11]

The Commission should adopt its proposal to require the reporting of private lines and to expand its reporting of special access line types. Because private line and special access demand are reflected in the costs estimated by cost models, and because the cost depends in part on the type of circuit (e.g., DS-0, DS-1, DS-3, etc.), the Commission should require the ILECs to report private line demand and special access demand by line type.

At the same time, the Commission should continue to require the reporting of special access demand in the current format. This would allow the Commission to monitor trends in special access demand. The Commission has used the ARMIS 43-08 special access demand trend data in estimating the ILECs' total factor productivity.[12]

## III. The Commission Should Not Eliminate Mid-Sized Carriers' CAM and ARMIS Filing Requirements

In the Notice, the Commission proposes to eliminate mid-sized carriers' CAM filing requirement, eliminate the requirement for an attestation engagement every two years, and eliminate the requirement that mid-sized ILECs file the ARMIS 43-02, 43-03, and 43-04 reports. These proposals do not appear to ensure that the drive to reduce the ILECs' "regulatory burdens" is properly balanced with the Commission's obligation to ensure just and reasonable rates.

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[11] Id. at ¶ 61.

[12] See Price Cap Performance Review for Local Exchange Carriers, Fourth Report and Order, CC Docket No. 94-1, released May 21, 1997, Appendix D-4 (special access demand data taken from SOCC).

The Commission has, only in the past year, substantially streamlined the accounting rules and reporting requirements that apply to the mid-sized carriers. There is no basis, at this time, for the Commission to determine that these newly-streamlined rules represent a "regulatory burden" for the mid-sized LECs. The "mid-sized" ILECs are, after all, corporations with billions of dollars in revenues that control millions of access lines.

Moreover, the Commission's proposals fail to recognize that mid-sized ILECs remain dominant carriers whose interstate rates continue to be linked directly to their reported costs. Indeed, at least one of the mid-sized LECs -- ALLTEL – is a rate of return carrier. And the price cap mid-sized ILECs are likely to continue to have the right to seek low-end adjustments, given that mid-sized carriers operate in less-competitive areas of the nation and are therefore less likely to qualify for or seek pricing flexibility. Under these circumstances, the Commission should not adopt its proposals to eliminate the mid-sized carriers' CAM and ARMIS filing requirements.

## IV. Conclusion

The Commission should, at most, adopt a subset of the accounting and ARMIS reform proposals discussed in the Notice.

Respectfully submitted,
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December 21, 2000

# STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on December 21, 2000.

Alan Buzacott

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## CERTIFICATE OF SERVICE

I, Vivian I. Lee, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on this 21st Day of December, 2000.

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